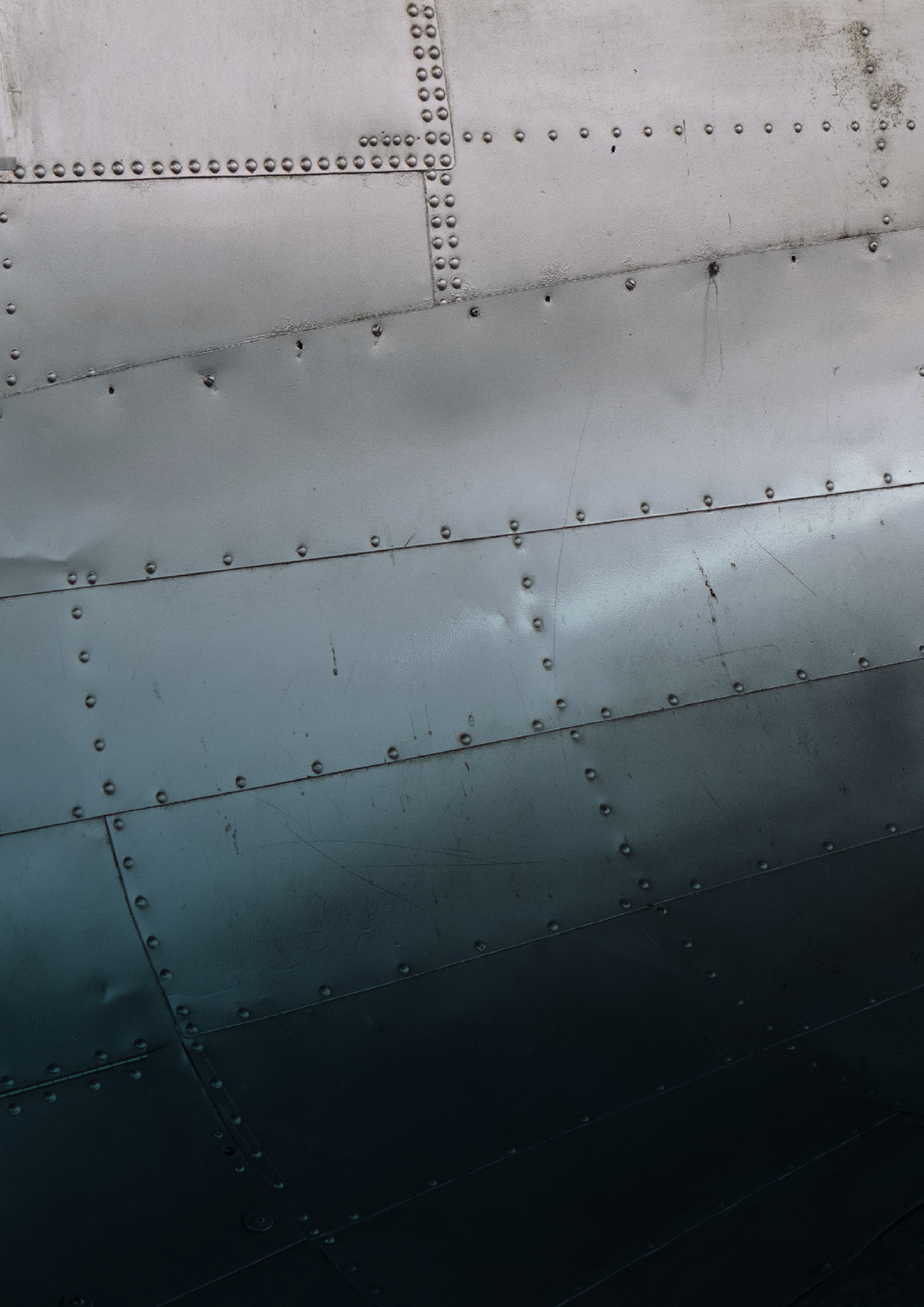
Australia – Japan

# AUSTRALIAN SECURITY SECTOR UPDATE & OPPORTUNITIES

ASHURST PERKINS COIE



# Introduction

Australia's security sector is undergoing rapid and historic transformation in response to an increasingly volatile international environment. At the same time, the security relationship between Australia and Japan is continuing to deepen as each nation sees the other as a reliable partner sharing common values.

On Thursday 16 April 2026, the Australian Department of Defence released an updated National Defence Strategy (the 2026 NDS) which builds on the previous iteration published in 2024. The 2026 NDS confirms that the trends driving deterioration in Australia's strategic environment have broadened and intensified, and that Australia will face elevated levels of geopolitical risk over the coming decade. The Australian Government is investing an additional $14 billion over the next four years and $53 billion over the next 10 years to enhance defence capability, preparedness and resilience. We have analysed some key trends that may shape and influence the security sector in Australia and highlight some of the new business opportunities that are emerging for Japanese and Australian companies.

# Key developments and opportunities

## 1. Australian–Japanese cooperation

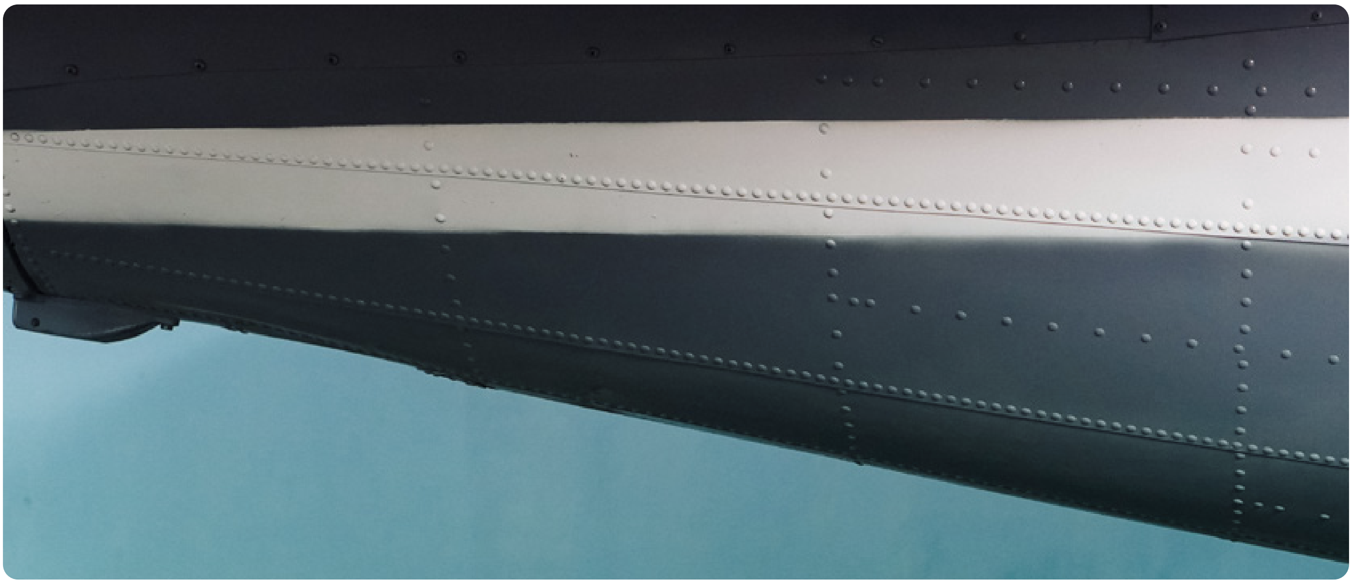
The deepening relationship between Australia and Japan on security matters is a continuing trend which is only likely to deepen. 2026 is an auspicious year in the bilateral relationship, marking the 50th anniversary of the Basic Treaty of Friendship and Cooperation between the two nations. It is also nearly two decades since the 2007 Joint Declaration on Security Cooperation which established an official defence partnership between the two nations. Both countries are grappling with changing and challenging geopolitics, and there appears to be significant political will to sustain and deepen security cooperation.

In late 2025, the Australian Government selected Mitsubishi Heavy Industries' Mogami-class frigate as Australia's new General-Purpose Frigate, a major export success for Japanese industry that illustrates the strength of the bilateral defence relationship. The Mogami deal goes beyond procurement and represents a move towards joint shipbuilding and technology exchange: while the first three ships will be built in Japan, the remaining eight will be built in Western Australia.

From a government to government perspective the two nations are looking to further strengthen security cooperation across all areas, and looking to evaluate the "special strategic partnership" between the two nations.  One way this will occur is through the further enhancement of institutional ties such as the establishment of the "Framework for Strategic Defence Coordination" to be led by Defence Ministers. This will allow greater consultation on matters impacting defence policy. In a joint ministerial statement dated 7 December 2025 the two Defence Ministers stated that they supported the efforts to maximise the benefits of the historic opportunity for enhanced interoperability based on industrial cooperation on shipbuilding and sustainment to contribute to peace and stability brought about by the selection of the Mogami frigate.

The Australia-Japan relationship was further strengthened on 21 April 2026 by Japan lifting their decades-long ban on lethal weapons exports to 17 countries, including Australia. Prime Minister Takaichi attributed the policy change to an "increasingly severe security environment" and a need to support Japan's partner countries. This significant shift illustrates geopolitical volatility and will enhance opportunities for Japanese companies to engage in the Australian Defence market.

**As MHI and other Japanese companies in the Mogami supply chain look to establish operations in Australia to service the local construction, and sustainment of Mogami there will be additional opportunities for them to play a larger role in the Australian defence market, seeking opportunities that are broader than the sustainment of Mogami. Working with Australian partners will be likely to result in reciprocal opportunities. A further point to watch is whether and how New Zealand might participate in the Mogami program, with New Zealand considering an order of two ships – the key will be where the construction of those ships occurs and how this is coordinated with the Australian order of Mogami frigates.**



## 2. AUKUS infrastructure

Australian defence spending is heavily influenced by the expenditure necessary to support the 30-year AUKUS program. This is Australia's largest ever defence investment. While the procurement of the submarines themselves will be extremely costly, very significant spending is also required for supporting facilities, in particular construction yards and ports. Key projects include the expansion of the Henderson port facility in Western Australia where the new AUKUS submarines will be based and a number of Mogami frigates will be built, and the expansion of the Osborne shipyard in South Australia to support the building of the AUKUS submarines. Funding commitments have also been announced for Henderson and Osborne. A decision on the location of an east coast submarine base is some way off, but material investment will be needed wherever it may be.

This is a very significant pipeline of port and maritime works and is an area of focus in the 2026 NDS. A critical issue to watch is how the Australian Government manages the pipeline of this work to avoid capacity constraints in the construction market that could result in cost blowouts and delays to delivery. Maritime construction is a specialist field and there are limited construction contractors with nuclear experience in the Australian market. Security concerns will likely mean the works will not be open to some contractors active in the Australian market. For instance one of the largest top tier contractors in the Australian market, John Holland is owned by China Communications Construction Company (CCCC). CCCC has had restrictions placed on certain subsidiaries due to their involvement in building military islands in the South China Sea. This will make it very difficult for John Holland to be involved in these projects.

**Japanese companies have been active as equity investors in, and suppliers and services providers to the Australian infrastructure market for decades, including in transport, energy and social infrastructure.**

**Given the scale of the opportunity to develop the required port infrastructure, there may be opportunities for Japanese companies to become involved in this pipeline of construction work, including through participation in consortiums.**

## 3. Exquisite systems versus scale and disposability

The AUKUS program is intended to deliver Australia nuclear-powered submarines (three to five Virginia-class and five to eight new AUKUS-class), at a total investment cost in the order of AUD $360 billion. All going well, the delivery of the AUKUS-class boats will not be until the 2040s with the Virginia class boats scheduled to bridge the gap before the AUKUS-class boats come online to be made available by the US to Australia in the early 2030s.

All of these submarines will be exquisite systems, highly expensive but relatively few in number.

At the same time as the AUKUS program is being pursued, the lessons from the Ukraine war suggest that inexpensive, disposable drones produced at scale with minimal time to capability will be critical in modern conflicts. Appropriate drone countermeasures will be also very important and will require considerable investment to ensure expensive exquisite systems are not countered by cheap at scale drones – the Ukraine war has shown innovatively used drones can counter conventional naval forces (for instance Ukraine's successes in the Black Sea).

**The development cycle for drone technology is short, and Australia has a number of companies driving innovation in drone and counter-drone systems. The 2026 NDS has highlighted the Government's investment in the domestic production of autonomous capabilities such as Ghost Shark, MQ-28A Ghost Bat, and counter-drone technologies. A key issue will be how the Australian Government addresses the need to ensure scale production of these systems and the building of sufficient sovereign manufacturing and support capability.**

**Ongoing innovation in this area is anticipated. This is an area in which Japanese companies' access to technology and industrial innovation can play a significant role.**

# 4. Key considerations in entering the Defence and security sector

Japanese investment in Australia is well-established across all sectors, and many Japanese companies have significant business with Australian governments, including the Department of Defence. However, many Japanese investors are unfamiliar with the particular legal and regulatory issues which typically arise in the context of Defence business. We highlight some of these issues.

# 5. Contract management

Contracting with the Department of Defence requires an understanding of the standard form (ASDEFCON) contracts which must be used, and the way in which those contracts are interpreted under Australian law – which is a common law system. Japanese companies will be more familiar with operating under Japanese standard form (ATLA) contracts which are governed by Japanese law, being a civil law system. There are also likely to be cultural differences in the approach between Australia and Japan to solving problems within the challenging context of defence procurement.

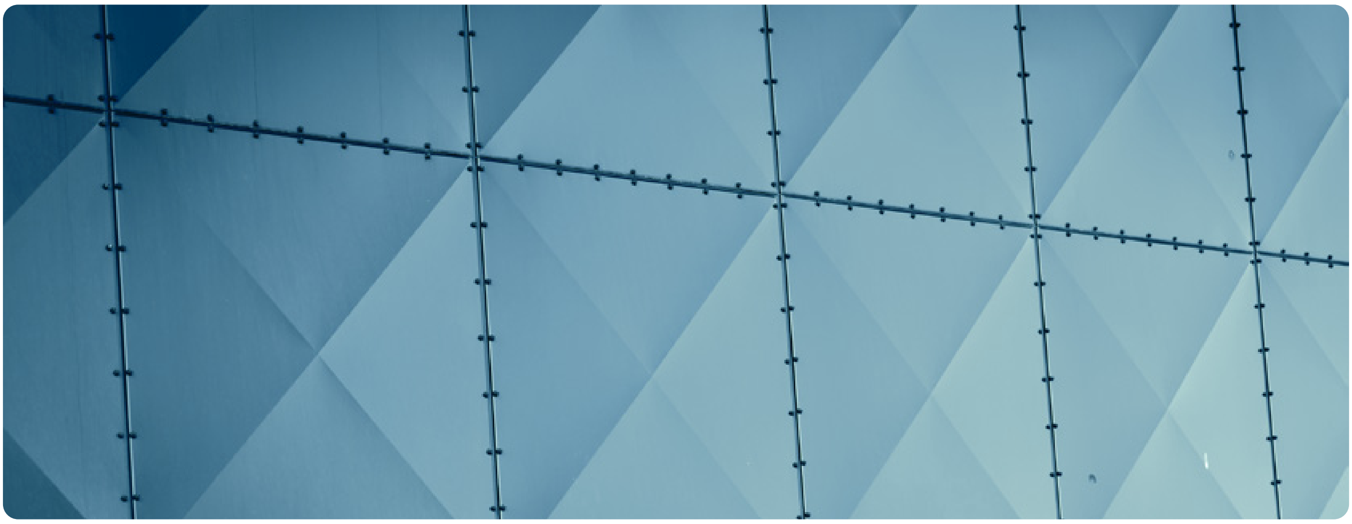
In practice, it will be important for Japanese companies to educate themselves on Australian Defence contracting and invest in contract management to mitigate the risk and impact of disputes.

Defence procurement in Australia is not without its challenges in delivering projects on time and on cost. There are a number of reasons for this, including:

- that defence procurement often involves complex cutting edge systems that are under development;
- the need for interfaces between different manufacturers' systems; and
- there can be changes in requirements during the procurement resulting in adjustments to project requirements or scope.

All of these factors can result in additional costs to deliver a project and delays to its delivery.

Well written procurement contracts will contain an allocation of risk between the Commonwealth and contractors. This allows industry to price risk of delivery without having to build in large contingencies for risks that may never crystallise. This is to the Commonwealth's advantage because if all risk was priced in, costs would likely be materially higher.



In the Australian security sector a combination of well publicised cost overruns combined with a perception of a "claims culture" in the industry has led to a renewed focus on contract management and justification for adjustments by the Commonwealth. What this means is that contractors in the Australian market must appropriately resource and manage the contract management of projects.

We think Japanese contractors need to be particularly cognisant of this as they establish operations and begin delivering work. The reason for this is that there is a cultural dynamic at play here. Existing suppliers in Australia understand the claims based approach and there is a perception that some contracting parties sometimes favour adversarial approaches over collaborative problem-solving. The downside of this approach is an over-reliance on claims-driven conduct can, at times, strain commercial relationships and divert focus from efficient project delivery. The Japanese approach to commercial relationships which is grounded in long-term partnership, cooperative problem-solving, and a preference for resolving disagreements through dialogue rather than formal claim or dispute mechanisms can often result in a reluctance to pursue a claims based approach. The downside here is it "leaves money on the table" and creates an exposure.

Japanese contractors who are reluctant to negotiate changes to delivery contracts or to make claims for costs and additional time will be open to exposure in the Australian market. It will be important that Japanese companies invest in this area and understand the commercial and cultural dynamic of claims. This should be important to the Commonwealth as well as the ability to deliver contracted outcomes while securing fair remuneration when scope evolves is not merely a commercial concern — it is fundamental to sustaining the partnerships that underpin Australia's (and Japan's) defence capability.

# 6. Management of cyber and physical risks

The 2026 NDS identifies that espionage and foreign interference are already at "extreme levels", with authoritarian regimes becoming more willing and able to disrupt critical infrastructure, conduct cyber intrusions and engage in misinformation and disinformation campaigns. This is a view that has been echoed by the Director-General of Security, Mike Burgess in his 2025 Annual Threat Assessment. Critical seabed infrastructure, described as the backbone of Australia's digital communications, is identified as vulnerable to sabotage by hostile nations. The 2026 NDS is clear that Australia's geography can no longer protect against new long-range missiles, space and cyber capabilities, disinformation or supply chain disruptions.

In response, the 2026 NDS prioritises significant investment in cyber capabilities as one of the integrated, focused force's key capability priorities. This includes continued investment in the Australian Signals Directorate through the REDSPICE program to significantly enhance Australia's cyber capabilities and provide options to defend Australian networks, an uplift to Defence's communications networks to provide greater network efficiency, resilience and redundancy, and enhanced defensive cyberspace capability through investment in workforce and cyber mission systems.  AUKUS Pillar II Advanced Capabilities also encompasses advanced cyber as a priority area for collaborative development between Australia, the United Kingdom and the United States.

On physical security, the 2026 NDS identifies the protection of Australian Defence Force forces and supporting critical infrastructure as one of six key capability effects for the integrated, focused force. The ability to withstand and recover from attack is described as signalling to any potential adversary the extent of Australia's resolve to defend itself. Specific investments include missile defence to protect critical Defence infrastructure and facilities from long-range and high-speed missile capabilities, counter-small uncrewed aerial systems for both domestic and deployable use to protect buildings, headquarters and deployed personnel, and the development of a resilient network of northern bases to enable force projection and improve Defence's ability to recover from an attack. More broadly, the 2026 NDS identifies protecting critical national logistics and infrastructure including bases, roads, railways, ports, telecommunication networks and domestic fuel and energy security, as a priority area for National Defence. This approach is similar to other legislative settings with respect to hardening risks for critical infrastructure entities.

For Japanese companies, these priorities present significant opportunities. The 2026 NDS's emphasis on protecting critical infrastructure and improving cyber security across the Defence estate and networks will drive demand for specialist security services, secure communications technology and physical protection systems. Japan's strengths in advanced manufacturing, telecommunications and systems integration are directly relevant to these capability needs. The Government's focus on ensuring security-by-design across Defence's ICT environment, including through the Defence Digital Group established in 2024, will also create opportunities for technology providers with strong security credentials. Japanese companies are well-positioned to contribute given their expertise in areas such as advanced sensor technology, cyber defence systems, and resilient infrastructure design.

# 7. Need for a highly skilled defence workforce

Defence opportunities for Japanese investors extend well beyond procurement. Australia's security sector faces significant skills shortages, particularly in specialised disciplines such as welding, boilermaking, and naval architecture. Japan possesses a well-established and highly capable workforce in each of these fields, creating a natural opportunity for Japanese professionals to contribute their expertise to Australia's expanding defence industry. By addressing these critical workforce gaps, Japanese investors and skilled workers can play a meaningful role in strengthening Australia's defence capabilities while deepening the bilateral economic relationship.

# 8. National resilience

The 2026 NDS significantly elevates national resilience as a priority for Australia. Building on lessons from the war in Ukraine and conflicts in the Middle East, the 2026 NDS recognises that preparedness and resilience are central to effective deterrence. The Government is strengthening the Australian Defence Force's ability to withstand, endure and recover from disruption, with the Department of Home Affairs leading efforts to improve Australia's national resilience and the Department of the Prime Minister and Cabinet coordinating whole-of-government national civil preparedness.

Key resilience priorities identified in the 2026 NDS include: supply chain resilience, with the Government accelerating efforts to address critical supply chain vulnerabilities, reduce reliance on vulnerable sea lines of communication and strengthen civil maritime freight capacity; fuel security, with the Government having invested $2 billion in fuel resilience initiatives and committing a further $4.8 billion over the decade; and the workforce and skills pipeline, leveraging programs such as apprenticeship incentives and Free TAFE to support higher uptake in defence, manufacturing, construction, transport, logistics, health and technology.

This whole-of-nation approach to resilience will require significant private sector participation and creates further opportunities for Japanese companies with expertise in logistics, supply chain management, infrastructure resilience and advanced manufacturing. The 2026 NDS's recognition that national civil preparedness supports the continuity of essential goods and services to Australians, social cohesion and surge support to Defence operations suggests growing demand for partnerships that strengthen Australia's sovereign capacity across these domains.

# 9. Australian foreign investment regulations

Foreign investment in Australia is regulated by the Foreign Acquisitions and Takeovers Act 1975 (Cth), and administered by the Foreign Investment Review Board (FIRB). Certain investments by foreign persons require prior approval from the Treasurer, and investments determined to be contrary to Australia's national interest may be prohibited. Of particular relevance to the defence sector, a foreign person must obtain FIRB approval before starting or acquiring a "direct interest" in "national security business", which includes businesses that:

- operate or have direct interests in critical infrastructure assets (e.g. critical defence industry assets, critical telecommunications assets, critical data storage or processing assets, and critical aviation assets);
- are telecommunications carriers or nominated carriage service providers;
- provide critical goods, technology or services intended for military or intelligence use; or
- store, maintain or have access to personal information of defence and intelligence personnel or security classified information.

FIRB approval is also required for a foreign person's acquisition of interests in national security land, which includes defence premises and land in which national intelligence agencies hold rights.

The monetary threshold for these kinds of actions (known as notifiable national security actions) is AUD $0, meaning any such investment requires FIRB notification regardless of value.

Japanese companies considering entry into the Australian defence sector should engage with these requirements early in the investment planning process.

# 10. First Nations engagement

An important consideration for Japanese companies entering the Australian defence market is engagement with Australia's First Nations peoples – Aboriginal and Torres Strait Islander peoples. The Australian Government and Department of Defence place significant emphasis on respectful and culturally aware relationships with First Nations communities, and this extends to expectations of defence industry participants.

In December 2025, Defence published the Defence First Nations Commitment 2025–2030, a strategic framework built on four pillars: Employment and Education; Inclusion and Reconciliation; Health, Wellbeing and Truth-Telling; and Economic Empowerment. The Commitment is aligned with the National Agreement on Closing the Gap, the National Defence Strategy and the Defence Culture Blueprint, and its implications extend to Defence's industry partners and supply chains.

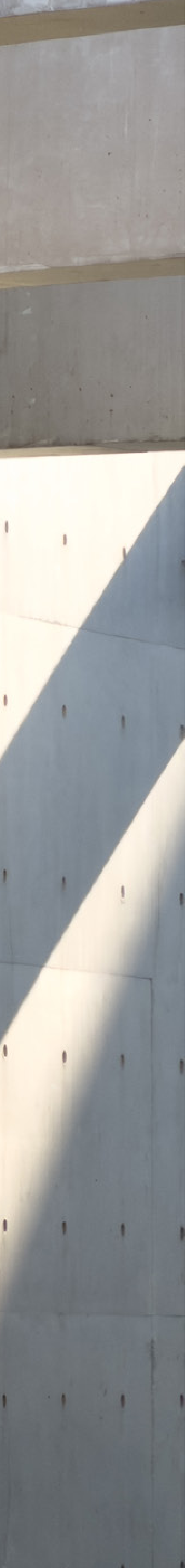
Of particular relevance is the Economic Empowerment pillar. Under the Commonwealth Indigenous Procurement Policy, Defence is required to award at least three per cent of its contracts by number to First Nations enterprises. Defence has also committed to increasing engagement with First Nations small to medium enterprises and expanding opportunities for First Nations service providers to tender for business, including by encouraging larger contractors to engage First Nations service providers for sub-contracting. Japanese companies should factor these requirements into their procurement and supply chain strategies.

Japanese companies establishing operations in Australia should invest early in developing cultural awareness among staff, building relationships with local First Nations communities, and understanding obligations around cultural heritage - particularly where projects involve Defence estate and infrastructure. Alignment with Defence's First Nations commitments is likely to be viewed favourably in procurement and partnering decisions, and companies that demonstrate genuine engagement will be better positioned to build trust with not just the Commonwealth, but most importantly, local First Nations communities.

# Concluding remarks

Australia's security sector stands at a pivotal juncture. The Australia Japan relationship will be critical for this and present many opportunities. The convergence of the AUKUS program, the rapid evolution of drone and counter-drone technologies, and the deepening of the Australia-Japan bilateral defence relationship is reshaping the landscape of regional security and creating substantial opportunities for industry participants on both sides of the partnership.

The trajectory of the defence relationship is clear: deeper collaboration, greater industrial interdependence, and a shared commitment to stability in an increasingly uncertain region. For Japanese companies looking to invest in understanding and navigating the Australian defence market, the opportunities ahead are as substantial as they are enduring.



# Key contacts

**Mark Disney**
**Partner**
**T** +61 3 9679 3047
**M** +61 408 427 722
mark.disney
@ashurstperkins.com

**Natsuko Ogawa**
**Partner**
**T** +61 3 9679 3833
**M** +61 427 481 911
natsuko.ogawa
@ashurstperkins.com

**Matthew Taylor**
**Partner**
**T** +61 7 3259 7260
**M** +61 427 314 201
matthew.taylor
@ashurstperkins.com

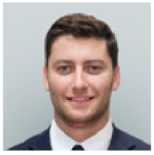
**Luke Houghton**
**Partner**
**Ashurst Risk Advisory**
**T** +61 2 9258 6994
**M** +61 414 712 255
luke.houghton
@ashurstperkins.com

**Emma Butler**
**Partner**
**Practice Group Head, Digital Economy Transactions**
**T** +61 3 9679 3549
**M** +61 438 294 361
emma.butler
@ashurstperkins.com

**Rachael Falk**
**Partner**
**Ashurst Risk Advisory**
**T** +61 2 9258 6405
**M** +61 438 434 822
rachael.falk
@ashurstperkins.com

**Teruma Naito**
**Partner**
**T** +81 3 5405 6097
**M** +81 90 3083 2626
teruma.naito
@ashurstperkins.com

**Hazel Brasington**
**Consultant**
**T** +61 3 9679 3550
**M** +61 408 693 268
hazel.brasington
@ashurstperkins.com



**Edward Sinnott**
**Senior Associate**
**T** +61 3 9679 3261
**M** +61 403 093 637
edward.sinnott
@ashurstperkins.com

**Shojeeb Alam**
**Senior Associate**
**T** +61 3 9679 3417
**M** +61 479 178 656
shojeeb.alam
@ashurstperkins.com

ashurstperkinscoie.com

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